Overview of State Bond Debt

This section describes the state's bond debt. It also discusses how Proposition 18—the $11.1 billion water bond proposal—would affect state bond costs.

Background

What Are Bonds? Bonds are the main method the state government uses to borrow money to pay for infrastructure projects and related costs. The state sells bonds to investors to provide "up-front" funding for these projects and then pays off the bonds—with interest—over time. General obligation bonds (which must be approved by voters) and lease-revenue bonds (which do not have to be approved by voters) are the two main types of bonds used to fund infrastructure.

How Much Infrastructure Debt Does the State Have? The state has $80 billion of infrastructure bonds outstanding—that is, sold but yet to be paid off. In addition, about $43 billion of voter-approved bonds have not yet been sold.

What Infrastructure Projects Are Financed With Bonds? Infrastructure projects include school and university buildings, roads, high-speed rail development, water and flood protection facilities, prisons, and state office buildings. Figure 1 shows the purposes for which bonds have been approved by voters since 2000. Once built, infrastructure facilities can last for several decades. Typically, the state pays off its bonds over 30 years or so with level annual payments (similar to many home mortgage payment schedules). In addition to issuing bonds for infrastructure, the state also has issued bonds to help balance its budget, such as the $8 billion of outstanding bonds authorized by Proposition 57 of 2004 (which will be paid off over the next several years). Proposition 58 of 2004 limits the state's future ability to issue bonds to help balance its budget.

Figure 1
State Infrastructure General Obligation Bonds Approved by Voters Since 2000

(In Billions)

Proposition Number/Date	Total Amount Authorized by Voters
Education (K-12 and Higher Education)	
47/November 2002	$13.1
55/March 2004	12.3
1D/November 2006	10.4
Subtotal, Education	**($35.8)**
Transportation	
Highways and other transportation	
1B/November 2006	$19.9
High Speed Rail	
1A/November 2008	10.0
Subtotal, Transportation	**($29.9)**
Resources	
12/March 2000	$2.1
13/March 2000	2.0
40/March 2002	2.6
50/November 2002	3.4
84/November 2006	5.4
1E/November 2006	4.1
Subtotal, Resources	**($19.6)**
Other	
Various propositions	$11.7
Total	**$96.9**

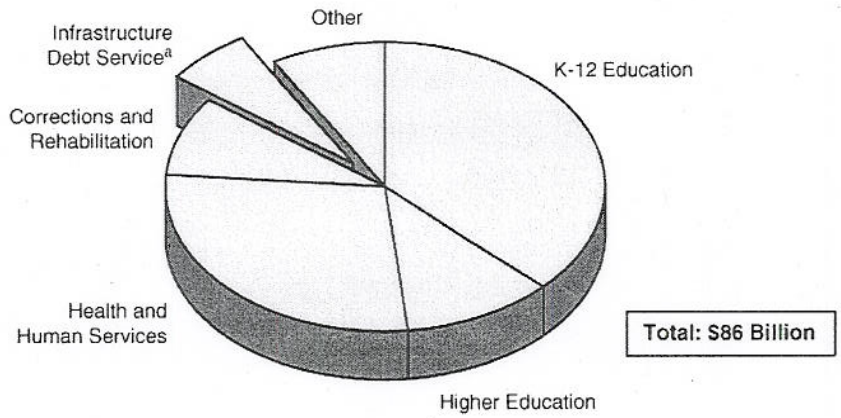
State Infrastructure Bond Costs

Bond Payments Now About 6 Percent of the State Budget. The state's main operating account is the General Fund. Most state tax payments—such as personal income, sales, and corporate taxes—are deposited in the fund, and it supports most major state services. (There are some exceptions, however, such as transportation, which is funded from fees, taxes, and other sources that are deposited to other state funds.) In 2009-10, the General Fund's infrastructure bond costs totaled over $5 billion. As shown in Figure 2, these debt-service payments now make up over 6 percent of the General Fund budget.

Figure 2

Major Expense Categories of California's General Fund

(2009-10)

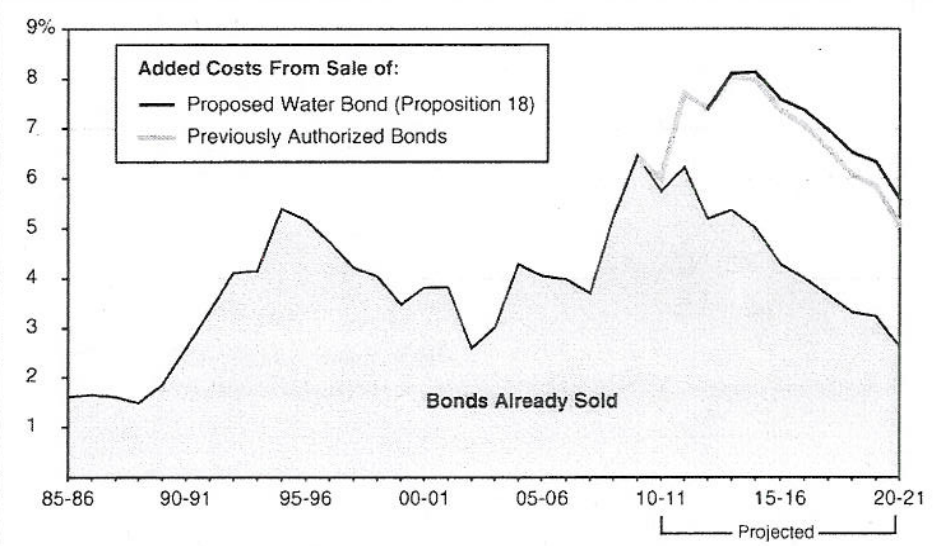


[a] Reflects lower General Fund costs due to the use of other funding sources to pay for debt-service expenditures of the state's transportation-related bonds.

Bond Costs Likely to Grow Further Over the Next Few Years. California voters approved large, new bond investments in infrastructure in 2006 and 2008. The state already has begun to sell these bonds, and these sales will continue over the next few years. Just as the state began to sell these bonds, General Fund revenues dropped about 20 percent due to the recent recession. These two factors have contributed to sharp growth in the state's debt-service ratio—the percentage of General Fund revenues that are spent on infrastructure bond payments. The estimated debt-service ratio from bonds already sold to investors is shown in the shaded area in Figure 3. A slow economic recovery for California is projected over the next few years. This slow recovery and the further growth of state debt from the 2006 and 2008 bonds are expected to increase the debt-service ratio further. Including the added costs from expected sales of previously authorized bonds, debt service is projected to peak at about 8 percent of General Fund revenues in 2013-14.

Figure 3

Estimated Debt-Service Ratio[a]



[a] Estimated annual debt-service payments on infrastructure bonds as a percentage of estimated General Fund revenues under current law. Reflects the use of dollars from state transportation funds to cover a portion of infrastructure bond payments each year, as allowed under current state law.

Effects of Ballot Propositions on State Bond Costs. As shown in Figure 3, the proposed water bond measure on this ballot (Proposition 18) would increase estimated General Fund debt-service costs in the coming years. Under Proposition 18, no more than one-half of the authorized water bonds could be sold to investors before 2015. As a result, the effect of the water bonds on the debt-service ratio before 2015 would be relatively small. Once all the water bonds are issued, payments on these bonds would total about one-half of 1 percent of the General Fund, and the state's debt-service ratio would

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peak at just over 8 percent in 2014-15. (The estimates in Figure 3 assume that no additional infrastructure bonds beyond Proposition 18 are authorized.)

Figure 3 displays the state's debt-service ratio assuming the use of dollars from state transportation funds to cover a portion of bond payments each year, as allowed under current state law. If voters approve either Proposition 22 or Proposition 26 on this ballot, the state's ability to use transportation funds for this purpose could be limited. If so, the General Fund costs of previously authorized infrastructure bonds would increase, and the debt-service ratio would peak at just over 9 percent in 2013-14.